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SUBJECT: SWEDISH FINANCE MINISTER PAINTS BLEAK PICTURE FOR
ECONOMY

REF: A. STOCKHOLM 221
1B. STOCKHOLM 195
1C. STOCKHOLM 157
1D. STOCKHOLM 72
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1F. STOCKHOLM 2008 709

11. Summary: Swedish Minister of Finance Anders Borg predicted that Sweden's unemployment rate will hit 8.9 percent in 2009, 11.1 percent in 2010 and 11.7 percent in 2011 before slipping back to 11.3 percent in 2012. Borg also predicted that deflation would emerge in 2009 with the Consumer Price Index falling by 0.4 percent, and that consumer price inflation will return, increasing by 0.3 percent in 2010, by 0.8 percent in 2011 and by 1.5 percent in 2012. Sweden will not stimulate the domestic market, as suggested by the Swedish National Institute of Economic Research, as Sweden needs to retain a substantial safety margin in the event the Baltic banking and financial crisis deteriorates further, Borg said. End Summary.

12. In an April 1 speech, Swedish Minister of Finance Anders Borg provided a bleak picture of the Swedish economy. Borg predicted that Sweden's unemployment rate will hit 8.9 percent in 2009, 11.1 percent in 2010 and 11.7 percent in 2011 before slipping back to 11.3 percent in 2012 with some 320,000 fewer people out of work during the period 2008-2011. This is a more negative forecast than the figures released by the Swedish National Institute of Economic Research on March 31, which stated that unemployment will reach 10.7 percent in 2010 and exports will decline by 15 percent. Borg also predicted that Sweden's GDP will drop by 4.2 percent in 2009, but climb by 0.2 percent in 2010, by 2.4 percent in 2011 and by 4 percent in 2012.

13. Borg's remarks this week contrast sharply with earlier estimates (reftels). As recently as the end of January, the Swedish government forecast that unemployment would peak at 8.5 percent in 2010 and that GDP would fall by only 0.8 percent in 2009 and then gradually recover, growing by 1.5 percent in 2010 and by 3 percent in 2011.

14. Borg also predicted that deflation would emerge in 2009 with the Consumer Price Index falling by 0.4 percent. Consumer price inflation will return, increasing by 0.3 percent in 2010, by 0.8 percent in 2011 and by 1.5 percent in 2012, he said. Public finances will weaken, forecasting a deficit until 2012. Borg expects Swedish imports to suffer from weakening global demand and investments to decline in 2009 and 2010. He called the scope for reforms "very limited," adding that Sweden would consider introducing additional stability packages on a regular basis, but would not stimulate the domestic market, as suggested by the Swedish National Institute of Economic Research. Sweden needs to retain a substantial safety margin in the event the Baltic banking and financial crisis deteriorates further, Borg said.

15. In answer to calls for increased public spending, Borg pointed out that Sweden's fiscal policies are the most expansive in the OECD area when one takes into account fiscal measures and the automatic stabilizers, i.e., the effect on public finances of an economic downturn (where tax revenues decrease and payments to households increase without any active political decisions).

16. Comment: If Borg's unemployment forecasts prove correct, Sweden will be facing its highest levels of unemployment since the early 1990s. Our Swedish interlocutors have told us that the financial crisis will not impact Sweden's commitments to Afghanistan or its priorities during the EU Presidency: combatting climate change, the Eastern Partnership and the Baltic Sea Strategy.

SILVERMAN